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SUBJECT: AMBASSADORIAL TRAVELS IN PATAGONIA -- MAJOR US  
INVESTMENTS IN OIL/GAS, BUT GOVERNORS EAGER FOR MORE

#### Summary

1. (SBU) The fast-growing provinces that make up Argentine Patagonia are hungry for investment, particularly in energy and tourism, and they are eager to attract U.S. investors, tourists, and airlines. This according to the Governors of Argentina's three southernmost provinces -- Chubut, Santa Cruz, and Tierra del Fuego -- who hosted the Ambassador and Emboffs during a six-city, five-day tour of the southern half of Argentine Patagonia. Although these three provinces contribute only 5% of Argentina's total GDP and only 2% of its population, they produce roughly 50% of Argentina's total crude oil and over 30% of its natural gas, and host fast-growing tourism and agricultural industries. The Ambassador met with Argentine government, civic, and scientific leaders, toured the Argentine Navy's southernmost base and U.S. hydrocarbon companies' production facilities, and met with Patagonian cherry farmers who recently began exporting to the U.S. The trip raised the profile of positive USG engagement in the region, highlighted U.S.-Argentine scientific, educational, and cultural collaboration, and provided opportunities for business advocacy on behalf of significant U.S. business interests in the petroleum sector. End Summary.

#### Embassy outreach in Patagonia

2. (SBU) The Ambassador's February 13-18 Patagonia trip was the Embassy's latest effort to enhance the image of the U.S. and highlight the good works of the USG and U.S. investors and private citizens in Argentina, the country with the lowest U.S. approval rating in Latin America. The Ambassador and State, USDA, Commerce, and U.S. military officers crisscrossed the southernmost Patagonian Provinces, traveling milair (in Buenos Aires DAO's C-12), meeting with Provincial Governors and Ministers in Chubut, Santa Cruz, and Tierra del Fuego. They toured the Chubut facilities of Occidental Petroleum and Lufkin Industries, accompanied Apache Corporation's Country Director on a helicopter tour of its oil and gas fields in Tierra del Fuego.

3. (SBU) Although the Patagonia trip had a commercial and business advocacy focus, the Ambassador also met with civic leaders and donated books to the BiNational Center and a popular library in Chubut and also to the Binational Center in Tierra del Fuego. He also toured the Austral Navy Base, the Austral Center for Scientific Study (CADIC), and the National Park in Ushuaia, Tierra del Fuego. Navy Rear Admiral Guillermo Estevez, who came across as pro-American and eager for enhanced bilateral cooperation, particularly with DAO, explained that the base plays a crucial role in tracking commercial shipping through the straits of Magellan

and Beagle Channel, and supports research stations in Antarctica. The CADIC research station is a valuable center for climatic change research, and CADIC and U.S. agencies and private institutions cooperate on a wide range of related scientific endeavors. The entire trip received extensive and positive press coverage in the Patagonian region, and equally positive but more limited coverage in Buenos Aires.

Chubut Province -- whales, cherries, and oil  
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¶4. (SBU) Governor Mario Das Neves explained that the petroleum, livestock, and fishing industries are the main drivers of Chubut's economy, but tourism is growing at 10% per year. Chubut is known for its beaches and sightseeing tours for whales, sea lions, and Magellan penguins on the Valdes Peninsula. Chubut also has some of the best fly fishing in the world. Das Neves complained of a lack of quality hotels and limited air service to the province, and asked for Post assistance to attract U.S. investors into the tourism sector. Ambassador agreed that Embassy FCS section would work with the Governor's staff to develop leads.

¶5. (SBU) The Ambassador highlighted the positive economic impact of U.S. investments in Chubut's petroleum sector. (Note: Chubut produces 23% of total Argentine crude oil and 8% of total natural gas, and it is the only province in Argentina where crude production is increasing. End Note). Occidental Petroleum, in particular, had begun an aggressive \$1 billion-plus capital Argentine exploration and development program, concentrated mainly in Chubut and Santa Cruz provinces. This was noteworthy, the Ambassador said, given President Kirchner's frequent complaints that oil companies are not investing in exploration and new production. Occidental also has a generous social responsibility program. (Note: the lack of investment is a direct result of GoA

market interventions, including export price controls, export taxes and domestic allocation requirements. Occidental says the impact of these policies is to make gas exploration uneconomical and reduce the effective price that Oxy receives for crude oil substantially below world market levels. End Note)

¶6. (SBU) The Ambassador urged Governor Das Neves to negotiate soon with Oxy on an extension of its concession contract, which expires in less than 10 years -- a short horizon for exploration companies. Das Neves welcomed Oxy's presence in the Province. His Economic Minister noted that the Province was beginning negotiations with PanAmerican, the largest producer in the province, and would then use that contract as the model for negotiations with other producers.

¶7. (SBU) Agriculture is also a key sector, and the Ambassador and Province officials toured Chubut's cherry growing sector. 2006/2007 was the first season that Patagonian growers were allowed to export cherries to the U.S. without have to undergo damaging cold treatment. This follows a December 2005 APHIS ruling that Patagonia was fruit fly free. Total Patagonian cherry exports to the U.S. were only approximately \$1 million (13% of which came from Chubut), but growers expect exports to increase rapidly. (Note: Chubut livestock producers are also eager to access the U.S. market. The comment period for the proposed APHIS rule declaring Patagonia south of the 42nd parallel free of Foot and Mouth disease ends March 6, after which Chubut and other Patagonian livestock producers should be able to export fresh lamb and beef to the U.S. End Note)

¶8. (U) Ambassador received extensive press and TV coverage with a book donation, story reading, and question and answer session with children at a local community library.

Santa Cruz Province -- glaciers, tourists, and oil  
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¶9. (SBU) Santa Cruz Governor Carlos Sancho and his Ministers enthusiastically welcomed the Ambassador, and were equally eager for U.S. investment and for U.S. bids on major infrastructure projects in the province. Santa Cruz is

completely dependent on mining and oil. The Governor is focused on diversifying the economy, mainly through attracting investment in tourism and on improving infrastructure through sizable government-funded projects, including major new roads, pipelines, and ports. In tourism, Sancho named similar restraints to growth in the sector that Chubut is experiencing (i.e., inadequate hotels and transportation linkages). The tourism industry is focused on Santa Cruz's many glaciers, and particularly the Glaciers National Park and the Perito Moreno (and other) Glaciers near El Calafate, a small town at the foot of the Cordillera whose population has increased from 4,000 to 20,000 in recent years. (Note: Kirchner was Governor of Santa Cruz for eleven years prior to becoming President of Argentina in 2003. End Note)

¶10. (SBU) The Ambassador delivered the same message to Governor Sancho on petroleum sector concession extensions that he had delivered in Chubut, noting that the bulk of Occidental's investment and job creation are in Santa Cruz. The Governor and his Economy Minister agreed that it was important to begin such discussions soon. (Note: Santa Cruz produces 18% of total Argentine oil and 10% of total natural gas. End Note) Ambassador also agreed that Post's Commercial Section would work with the Governor and his staff to attract U.S. participation in the public bidding for infrastructure projects in the province.

Tierra del Fuego -- natural beauty beyond belief, train to the end of the world ... and oil

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¶11. (SBU) Tierra del Fuego's (TdF) capital, Ushuaia, is a tourist paradise, at the foot of towering mountains and on the edge of the Beagle Channel, named after the boat Darwin used when exploring the region in the 1830s. As a result, the tourism industry is booming. Governor Hugo Omar Cocco commented that the city receives over 250 cruise ships per year, and is a launching pad for Antarctica tours. TdF National Park receives over 150,000 visitors annually, the majority of whom are Amcits, and offers "the train to the end of the world."

¶12. (SBU) Ushuaia's hotels are first rate, but the Governor said that much more investment in the sector was needed. He also complained that Ushuaia does not receive enough flights,

and air travel is prohibitively expensive. The Ambassador commented that lack of competition in Argentina's domestic aviation industry is a significant constraint. He noted that the U.S. and Argentina are renegotiating our bilateral aviation agreement to increase flight frequencies, which should result in more visitors traveling at lower cost to Argentina. Inevitably, this would lead to more tourists traveling to Patagonia. Nevertheless, the Ambassador criticized Argentina's practice of charging foreigners as much as two to three times the price residents pay for hotels and air service. This makes Argentina's provinces a less attractive destination, particularly for U.S. tourists.

¶13. (SBU) Cocarro stated that TdF's economy also has strong fishing, timber, and petroleum industries. TdF produces 6% of total Argentine oil and 14% of total natural gas, but the Governor stated that the Province has 35% of Argentina's gas reserves and also significant proven and probable crude reserves. The Province is also exploring alternative energy options, and the Governor claimed to be in contact with several U.S. companies interested in investments in wind power and fuel cells. Also, since the entire province retains free zone tax status, a light manufacturing industry (mostly assembly) has developed, including a subsidiary of Motorola.

¶14. (SBU) The Ambassador advocated on behalf of Apache Corporation, which invested over \$1 billion in 2006 in Argentina, including over \$800 million in TdF. The Ambassador noted that the GoA's decision in October 2006 to revoke export hydrocarbon tax exemptions for TdF Province had devalued Apache's investment by 30%. He said Apache was

still committed to investing aggressively in exploration and production. However, the viability of Apache's operations -- and their willingness to continue to invest aggressively in exploration -- depended on renewing their concession contracts soon. (Note: The Ambassador introduced Apache's Country Director to the Governor and Production and Economy Ministers, and facilitated subsequent discussions. Apache reports that the Governor seems willing to talk about concession contracts, but is also pushing Apache to invest in areas -- such as an oil refinery and methane plant -- outside Apache's core hydrocarbon exploration and development competency. End Note)

Comment

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115. (SBU) All three Provincial governments are desperately seeking investment, particularly in tourism, to diversify their oil-dependent economies. There also seems to be good opportunities for U.S. companies to participate in public tenders for infrastructure development. Although each offers extraordinary opportunities for tourists -- whales and sea lions in Chubut, glaciers in Santa Cruz, and incredible natural beauty and history in Tierra del Fuego -- they are also well off the beaten path. While more inclined to intervene in the economy than is common in the U.S., the three province Governors all said they were committed to creating open, transparent, and level playing fields for investors. The Chubut and Santa Cruz Governors seemed to appreciate that this was even more important for their provinces, given higher risks due to their remoteness, volatile weather, and high travel costs. The Embassy Commercial Section has offered assistance in attracting U.S. bidders on contracts in the three provinces. Post will also continue advocacy efforts on behalf of the large U.S. oil investors, particularly Occidental and Apache, which need to complete concession extensions within the next few years to maintain the viability of their operations. End Comment.  
WAYNE